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Public Service Commission

FEDERAL COMMUNICATIONS COMMISSION
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May 12, 1993

Ms. Donna R. Searcy
Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Re: In the Matter of THE ACCOUNTING AND RATEMAKING TREATMENT
FOR THE ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION
(AFUDC)
CC Docket No. 93-50

Dear Ms. Searcy:

On behalf of the Florida Public Service Commission, please find enclosed an original and five copies of the Commission's Request. An extra copy is also enclosed with a stamped, self-addressed envelope; please date stamp and return.

Please contact me should you have any questions concerning this matter.

Sincerely,

William E. Wyrrough, Jr.
Associate General Counsel

WEW
Enclosures

afudcfcc.wlt

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List A B C D E

the Revenue Requirement Offset Method for short term plant under construction.

THE REVENUE REQUIREMENT OFFSET METHOD

We concur with the FCC that the full adoption of GAAP standards for AFUDC capitalization is preferable to the current rules. However, the Revenue Requirement Offset Method is not appropriate for today's telecommunications industry. In SFAS 34 and SFAS 42, the issue of materiality is discussed extensively and AFUDC capitalization is not required if the amount is immaterial to the financial statements. Based on data submitted to the FPSC by Southern Bell, FPSC staff has calculated that the total long term and short term plant under construction combined is only one percent of rate base. Even if AFUDC is capitalized on long term and short term plant under construction combined, our staff's calculations reveal that the impact on total revenue requirements is less than two tenths of one percent. Objective analysis of the data available leads to the conclusion that the amount of AFUDC which may be recorded on plant under construction in the telecommunications industry is simply immaterial. Therefore, in accordance with SFAS 34 and SFAS 42, we further conclude that the Revenue Requirement Offset Method, which results in capitalizing immaterial amounts of AFUDC, should not be adopted by the FCC.

Furthermore, the Revenue Requirement Offset Method may encourage companies to delay the closing of the plant under construction account to the plant in service account. FPSC audits indicate that plant under construction is often not closed to plant

in service at the appropriate time. This results in the accrual of AFUDC at the same time the plant is actually in service. Thus, the Revenue Requirement Offset Method provides the company with a disincentive to account for plant in a timely manner.

THE RATE BASE METHOD

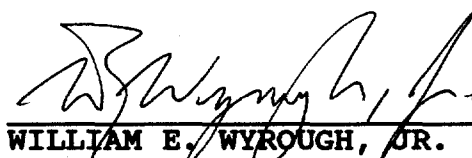
The application of Rate Base Method to all plant under construction is the most appropriate approach for ratemaking purposes in today's environment. The amount of time needed for the

practical perspective, we believe that the use of the Rate Base Method is more appropriate than the Revenue Requirement Offset Method for the accounting and ratemaking treatment of plant under construction.

CONCLUSION

We agree with the FCC's proposals to eliminate the long term/short term dichotomy for plant under construction and to include all plant under construction in the rate base. However, we disagree with the FCC's proposals to capitalize AFUDC at the cost of debt on all construction and to apply the amount of AFUDC capitalized as a revenue requirement reduction for the period it is capitalized.

Respectfully submitted,



WILLIAM E. WYROUGH, JR.
Associate General Counsel

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Dated: May 12, 1993

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